



County of Los Angeles CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA
Chief Executive Officer

February 14, 2011

To: Mayor Michael D. Antonovich
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

From: William T Fujioka
Chief Executive Officer

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REPORT ON NEGOTIATIONS WITH L.A. CARE AND DEPARTMENT OF HEALTH SERVICES AMBULATORY CARE/COMMUNITY HEALTH PLAN (ITEM NO. 53, AGENDA OF FEBRUARY 15, 2011)

On April 13, 2010, your Board approved, in concept, the report and recommendations by Health Management Associates (HMA) on its evaluation of the Department of Health Services (DHS) Office of Managed Care (OMC)/Community Health Plan (CHP) and its readiness for pending health reform changes. In addition, your Board approved this Office convening: 1) DHS and L.A. Care representatives to engage in negotiations to determine whether the new relationship, as outlined in the HMA report, can be developed; and 2) workgroups to develop an implementation plan, with specific timelines and projected costs, to address the recommendations in the HMA report. Further, your Board instructed this Office to report back at a regularly scheduled Board meeting every 30 to 60 days with a status regarding the negotiations with L.A. Care.

BACKGROUND

On August 16, 2010, the County retained Macias, Gini and O'Connell LLP (MGO), an independent audit firm jointly selected by the County and L.A. Care to conduct a financial review of DHS CHP. Consistent with one of the recommendations included in the HMA report, MGO performed an agreed upon procedures report (financial review) to analyze the profitability of DHS CHP, the County's Knox-Keene licensed health plan.

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Each Supervisor
February 14, 2011
Page 2

This memorandum provides, for your Board's review, the final report, *Independent Accountant's Report on Applying Agreed-Upon Procedures*, prepared by MGO (Attachment I).

Financial Review of CHP

MGO performed and provided results for nine agreed-upon procedures to CHP's previously issued financial statements for June 30, 2008, and June 30, 2009, and where indicated for interim March 31, 2010, as noted on Attachment I, Pages 3-4.

As previously reported, MGO provided its final report to the County and L.A. Care for review. However, additional time was required to address two areas identified by DHS related to the report on: 1) potential redaction of confidential rate-sensitive information currently presented in the report; and 2) presentation of evaluation and findings related to some areas of OMC/CHP expenditures and accounts receivables.

Upon completion of DHS' review, it was determined confidential rate information presented in the attached MGO final report should be redacted, with review and concurrence by the Chief Executive Office and confirmation by County Counsel that the rate may be kept confidential. Attachment I reflects those redactions. A copy of the MGO final report without redactions will be transmitted to each Board office under separate cover from County Counsel. Additionally, DHS has provided input (Attachment II) to a key finding in MGO's report, which uses a different methodology for calculating the net benefit.

MGO reports net income for CHP from all lines of business of \$24.9 million in FY 2007-08, \$23.8 million in FY 2008-09, and \$26.2 million in FY 2009-10. [If claims payable were calculated according to the DHS CHP methodology in FY 2009-10, the net income would be reduced from \$26.2 to about \$18.2 million.] The CHP income for these years is offset by the DHS net cost for this group of patients [including out of plan costs] estimated at \$11.3 million per year [Table 13, page 14], based on data for FY 2006-07. Assuming that net costs were at least this much in the subsequent years, the net value to DHS of the CHP would be no more than \$12.5 to \$14.9 million over each of the past three years. [The DHS CHP methodology would reduce the net value to \$6.9 million in FY 2009-10.]

As referenced in the HMA report, a key element of the negotiations with L.A. Care will be to achieve a per patient/per month rate of payment for, and a sufficient volume of patients to be assigned to, DHS as a provider along with a division of financial responsibility which protects the revenue stream to DHS. Further, the County would

Each Supervisor
February 14, 2011
Page 3

negotiate an arrangement with L.A. Care, which reduces overall administrative costs, so that the revenue to DHS from these lines of business would potentially grow.

L.A. Care Negotiations

On December 22, 2010, this Office, in coordination with DHS, distributed our third update on status of the negotiations with L.A. Care and the ambulatory care restructuring. In addition, on February 4, 2011, DHS provided a supplemental report on the DHS Ambulatory Care Work Plan.

The information provided in this memorandum and the independent financial review relates to the negotiations with L.A. Care on the potential transition of current CHP product lines to L.A. Care. The target date for reporting next to your Board on those negotiations is May 1, 2011.

The reports on the L.A. Care negotiations related to the transition of the Seniors and Persons with Disabilities (SPD) population from Medi-Cal fee-for-service to Medi-Cal Managed Care and the ambulatory care restructuring are scheduled for consideration at your Board's February 15, 2011 meeting.

If you have any questions, please contact me, or your staff may contact Sheila Shima, Deputy Chief Executive Officer, at (213) 974-1160 or Dr. John Schunhoff, Chief Deputy Director, Health Services, at (213) 240-8370.

WTF:SAS
MLM:DL:gl

Attachments

c: Executive Office, Board of Supervisors
 County Counsel
 Auditor-Controller
 Health Services

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**COUNTY OF LOS ANGELES
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN**

Independent Accountant's Report on
Applying Agreed-Upon Procedures

For Periods Ended June 30, 2008, June 30, 2009, and March 31, 2010



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Table of Contents

Independent Account's Report.....	1
Background.....	2
Objectives/Scope.....	2
Agreed-Upon Procedures.....	3
Principle Results	4
Appendix I Procedure Narrative	5

Attachments

Attachment 3-1	List of Medical Service Contracts Reviewed.....	15
Attachment 3-2	Schedule of 2008/09 provider receivables outstanding.....	16
Attachment 5-1	Statement of Operations by Line of Business for FYE 2008.....	17
Attachment 5-1-1	Statement of Operations by Line of Business for FYE 2008 Adjusted.....	18
Attachment 5-2	Statement of Operations by Line of Business for FYE 2009.....	19
Attachment 5-2-1	Statement of Operations by Line of Business for FYE 2009 Adjusted.....	20
Attachment 5-3	Statement of Operations by Line of Business for FYE 2010.....	21
Attachment 5-3-1	Statement of Operations by Line of Business for FYE 2010 Adjusted.....	22
Attachment 6-1	Schedule of Administrative Expenses.....	23
Attachment 6-2	Schedule of Professional and Consulting Services	24
Attachment 6-3	Schedule of Administrative Expenses by Function.....	25
Attachment 6-4	Schedule of Full-Time Equivalent (FTE) and Salaries and Employee Benefits (S&EB) by Function.....	26
Attachment 6-5	Schedule of Allocation from Non-CHP Entities	27
Attachment 7-1	Comparison of Budget to Actual for FYE 2008	28
Attachment 7-2	Comparison of Budget to Actual for FYE 2009	29
Attachment 7-3	Comparison of Budget to Actual for FYE 2010	30
Attachment 8	Schedule of FYE 2010-11 Budget	31
Attachment 9-1	Schedule of Capitation Distribution.....	32

To the Honorable Board of Supervisors
County of Los Angeles, California

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

We have performed the procedures enumerated below, which were agreed to by the County of Los Angeles, solely to assist you with respect to independent financial review of previously issued audit reports of the Community Health Plan (CHP) for June 30, 2008 and 2009 and interim March 31, 2010. County of Los Angeles's management is responsible for the County's accounting records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The County of Los Angeles retained MGO to perform an agreed upon procedures report on the profitability of Community Health Plan, the County's Knox-Keene licensed health plan. The objectives and procedures and findings are listed below.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the County of Los Angeles, and is not intended to be and should not be used by anyone other than those specified parties.

Certified Public Accountants
Los Angeles, CA

October 29, 2010

**COUNTY OF LOS ANGELES
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
FOR THE PERIODS ENDED JUNE 30, 2008, JUNE 30, 2009, AND MARCH 31, 2010**

BACKGROUND

The County of Los Angeles owns and operates the Community Health Plan which is an operation unit within the Department of Health Services (DHS). CHP has approximately 192,000 members in three lines of business: Medi-Cal, IHSS Homecare Workers, and Healthy Families.

CHP is one of five plan partners contracting with L.A. Care Health Plan, the Local Health Initiative for Medi-Cal Managed Care in Los Angeles County. CHP has over 1200 primary care physicians, 830 pharmacies, and more than 1,000 specialists in its provider network. CHP receives approximately 142,000 Medi-Cal members from L.A. Care Health Plan. More than 43 percent of CHP's membership is assigned to DHS facilities for medical care; these County facilities assume a substantial amount of the financial risk for the member's care.

CHP contracts with the State's Managed Risk Medical Insurance Board (MRMIB) to participate as a Healthy Families Program provider. The Healthy Families Program provides comprehensive health, dental, and vision coverage to children in families with income at or below 250 percent of the federal income guidelines. CHP receives approximately 15,000 members from MRMIB.

CHP contracts to provide health care services with eligible In-Home Supportive Services workers. CHP provides IHSS workers access to a provider network comprised of Los Angeles County Department of Health Services facilities and contract providers. CHP has approximately 35,000 IHSS members.

Recently, the County Board of Supervisors retained Health Management Associates, a consulting group, to provide an evaluation of the Office of Managed Care of the Los Angeles County Department of Health Services. Among various recommendations, the evaluation recommends that the County "transition DHS out of the operation of a County-owned health plan (CHP)" and transition the membership of CHP to L.A. Care Health Plan. On April 13, 2010, the Los Angeles County Board of Supervisors voted to accept the report in concept and approved the County CEO's recommendation to begin negotiations with L.A. Care Health Plan to assess the feasibility of implementing the recommendations. HMA recommended that a first step in negotiation between the County and L.A. Care would be that an independent financial review be performed. The results of this review would be used to formulate the baseline for on-going support from L.A. Care to DHS after the transition of membership is completed.

Los Angeles County contracted with Macias, Gini, and O'Connell, LLP/Macias Consulting Group to perform certain specified agreed upon procedures on the profitability of the Community Health Plan (CHP), the objectives and procedures and findings are listed below.

OBJECTIVES

The purpose of performing the agreed upon procedures was to analyze CHP's profitability.

SCOPE

MGO examined the following areas for fiscal years ending June 30, 2008, 2009, and where indicated for interim March 31, 2010.

**COUNTY OF LOS ANGELES
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
FOR THE PERIODS ENDED JUNE 30, 2008, JUNE 30, 2009, AND MARCH 31, 2010**

- Incurred but not reported payables
- Accounts receivable
- Capitation
- Capitation contracts
- Denied claims
- Assumptions used in allocating costs
- Assignment of costs
- Budget versus actual operating performance
- Budget preparation
- Spending surplus/shortfalls

AGREED-UPON PROCEDURES

MGO performed the following agreed upon procedures to the previously issued audited financial statements for June 30, 2008 and June 30, 2009 and where indicated for interim March 31, 2010:

1. Determine the difference between the amounts reported accrued for accounts receivable, capitation payable, IBNR/claims payable and accounts payable to County versus the amount actually received or paid subsequent to the balance sheet date for each of the fiscal years and amounts still outstanding. .
2. For the revenue reported, determine the amount attributable to current fiscal year and the amount of retroactive revenue recognized for retroactive rate increases or increase in membership for the two fiscal years noted above.
3. Perform a detailed review of all capitation contracts (including DHS facilities) and determine if amounts being recorded as receivables for capitated services are valid according to contract terms and if there is capacity at provider levels to repay the amounts accrued as receivables as of the balance sheet dates noted above. For each capitation contract, list the expiration date; determine if there have been any changes in compensation since July 1, 2008 or if there are any future scheduled capitation increases.
4. Determine and document how allowance for denied claims was computed for June 30, 2009. Test a sample of denied claims and determine if denial was appropriate or if claim was subsequently paid on appeal or should have been paid even if appeal not filed. Determine as a percentage, amount paid for claims with dates of service prior to June 30, 2009 with total claims adjudicated with dates of service prior to June 30, 2009. Compare the results of the sample and payment percentage with the allowance percentage contained in the audit for claims.
5. Trace to underlying financial records and analysis, a report of profitability by service line for June 30, 2008 June 30, 2009 and March 31, 2010, (if CHP has such a report available). Determine assumptions and allocations are consistent with annual audited financial statements, if not please identify any material differences. If no report is available from CHP, then prepare a statement of income by service line as of June 30, 2008, June 30, 2009 and March 31, 2010 in accordance with professional standards.
6. Obtain a schedule of CHP's administrative cost detail by category for the fiscal years ended June 30, 2008 and June 30, 2009. Determine if OMC's assignment of costs between Medical and Administrative follows industry trends (or standards) and the LA

**COUNTY OF LOS ANGELES
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
FOR THE PERIODS ENDED JUNE 30, 2008, JUNE 30, 2009, AND MARCH 31, 2010**

Care provided template. Identify and schedule any cost allocations from non-CHP entities for both fiscal years. Obtain a schedule of the number of Full Time Equivalent (FTE) employees by function for each fiscal year. Obtain a schedule of amounts paid for professional and consulting services by each payee and by contract with identification of services provided.

7. Compare actual results of operations for the most recent internal financial statement with original approved budget as of March 31, 2010. Compare final operating results for fiscal years ending June 30, 2008 and 2009 with original approved budgets.
8. Obtain 2010-2011 Budget with detailed assumptions from CHP. Determine whether procedures for budget preparation and preparation of financial statements are the same. Document variation in procedures for preparing budget and any procedures or assumptions used to prepare annual financial statements.
9. Verify for County Fiscal Years 2007-08 and to the extent possible 2008-09, the surplus or shortfall of funding to DHS facilities based on capitation payments to DHS facilities from CHP taking into account payments to out of plan and contracted non-DHS facilities as well as the cost to provide care to the membership that receives services directly from DHS facilities. Summarize key terms of each contract with DHS facilities including covered services and any carved out services (services not included in capitation).
10. Issue a report that contains the findings and detailed schedules based on the procedures performed.

PRINCIPLE RESULTS

Based on the results of the procedures performed we found the following issues that will result in an adjustment in order to better present the profitability of CHP for 6/30/2008, 6/30/2009, and 3/31/2010. These adjustments are included in the statement of operations by line of business in attachments 5-1-1, 5-2-2, and 5-3-3. We show the statements both with the adjustments and without the adjustments. As reported by CHP, the plan was profitable for fiscal years 2008, 2009, and interim March 31, 2010.

Accounts Receivable/Claims Reimbursement Receivable - CHP has receivables over 90 days outstanding due from delegated providers or providers where the contracts have expired. While the county is working with the County's Treasurer Tax Collector department to collect the old amounts, CHP should record an allowance for doubtful accounts for the amounts over 90 days outstanding.

Claims Payable and IBNR - We noted that CHP was over accrued in its incurred but not received (IBNR) claims liability for June 30, 2008 and 2009, and March 31, 2010. The amounts of the over accrual are detailed below. There was a significant increase in IBNR for interim periods 3/31/2010 and 6/30/2010 which CHP explained as providers submitting their claims sooner than in the past. Since CHP's IBNR estimate is based on a date of receipt lag model, submitting a claim sooner will result in an increased medical liability at the initial part of the trend. Calculating the IBNR using a paid claim lag model does not support the increase in IBNR at 3/31/2010. We did not have sufficient paid claim data to calculate the 6/30/2010 IBNR balance. We calculated the potential over accrual of IBNR (\$11 million) that would impact profitability of CHP. An adjustment for the over accrual could increase net income from \$14 million to \$26 million. See Attachment 5-3-1 for Statement of Operations by Line of Business FYE 2010 (adjusted).

**COUNTY OF LOS ANGELES
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
FOR THE PERIODS ENDED JUNE 30, 2008, JUNE 30, 2009, AND MARCH 31, 2010**

Classification of Medical and Administrative Expenses - Beginning fiscal year 2008-2009, CHP allocated salaries and employee benefits of claims processing to medical expenses. However, per Section 1300.78 of the California Code of Regulations, expenses related to claims processing should be categorized as administrative expense. Therefore, we reclassified claim processing expenses from medical to administrative expenses for fiscal year 2008-2009 and 2009-2010. Total claim processing expenses that are reclassified for fiscal year 2008-2009 and 2009-2010 are \$970,429 and \$1,237,324, respectively.

In addition, CHP reclassified some expenses related to nurse advice line, complex case management, and disease management, HEDIS, paid for performance and other medical administrative expenses from administrative expenses to medical expenses. Upon review, we concluded CHP's reclassifications of expenses are appropriate in accordance with Section 1300.78 of the California Code of Regulations. To ensure the consistency, we reclassified some expenses from administrative to medical expenses in fiscal year 2007-2008 and 2008-2009 to conform with fiscal year 2009-2010's expenses classifications. Total expenses reclassified for fiscal year 2007-2008 and 2008-2009 are \$6,412,893 and \$3,257,264, respectively.

QIF Revenue - In fiscal year 2007-2008, CHP received \$3,921,264 from LA Care for Quality Improvement Fund (QIF) fiscal year 2005-2006 to 2007-2008. MGO reclassified out \$2,566,097 QIF that is related to prior fiscal year from fiscal year 2007-2008 revenue.

Appendix I: Procedure Narrative

Agreed upon procedure #1: *Determine the difference between the amounts reported accrued for accounts receivable, capitation payable, IBNR/claims payable and accounts payable to County versus the amount actually received or paid subsequent to the balance sheet date for each of the fiscal years and amounts still outstanding.*

Accounts Receivable:

Results: The accounts receivable balance is comprised of premium capitation receivable (due from LA Care, MRMIB, and quality improvement fund), claims reimbursement receivable from health care service providers, and interest receivable. As shown in Table 2.0, CHP reported \$18,047,328 in accounts receivable balances while we identified \$17,592,481 in actual receivables as of June 30, 2009. The amount outstanding is \$640,728. CHP should establish an allowance for doubtful accounts for three specific receivables from providers. On one of them, claims reimbursement receivables result when CHP adjudicates and pays a claim that has been determined to be the financial responsibility of a capitated / delegated provider. While CHP has a process in place to collect amounts owed from providers, these specific receivables have been outstanding for over 90 days and the contracts have terminated, CHP should establish an allowance for these receivables. The receivables for premiums were collected timely.

Table 1.0: CHP Accounts Receivable Balances

Accounts Receivable	2009	2008
Capitation premium receivable	\$ 16,740,309	\$ 20,735,652
Claims reimbursement receivable	18,047,328	14,906,216
Interest Receivable	122,030	259,645
Other Receivable	727,885	560,092
Total per Audited Financial Statements	\$ 35,637,552	\$ 36,461,605

**COUNTY OF LOS ANGELES
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
FOR THE PERIODS ENDED JUNE 30, 2008, JUNE 30, 2009, AND MARCH 31, 2010**

Table 2.0: CHP Capitation and Claims Receivable

	Capitation Premiums Receivable	Claims Reimbursement Receivable
Balance Reported @ 6/30/2009	\$ 16,740,309	\$ 18,047,328
Receivables based on amounts collected	\$ 16,740,309	\$ 17,592,481
Variance	\$ 0	\$ 640,728

Table 3.0: CHP Capitation and Claims Receivable

	Capitation Premiums Receivable	Claims Reimbursement Receivable
Balance Reported @ 6/30/2008	\$20,735,652	\$ 14,906,216
Receivables based on amounts collected	\$ 20,735,652	\$14,906,216
No Change	\$0	\$0

Accrued Capitation

Results: Finally, accrued capitation represents capitation expense to be paid in the following month to CHP's delegated providers. Accrued capitation based on amounts paid in the following month were consistent with the amounts reported in the financial statements, as shown in table 4.0 and 5.0"

Table 4.0: CHP Accrued Capitation Amounts Reported

Per Audited financial statements	2009	2008
Accrued Capitation	\$ 13,398,043	\$ 12,295,873

Table 5.0: CHP Accrued Capitation Amounts, Verified

	2009	2008
Accrued Capitation per financial statements	\$ 13,398,043	\$ 12,295,873
Accrued Capitation based on amounts paid	\$ 13,398,043	\$ 12,295,873
No Change	\$ 0	\$ 0

**COUNTY OF LOS ANGELES
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
FOR THE PERIODS ENDED JUNE 30, 2008, JUNE 30, 2009, AND MARCH 31, 2010**

Accounts Payable and Due to County

Results: MGO reviewed 90 percent of the subsequent disbursements of accounts payable and Due to County as shown in Table 6.0 and found amounts are paid or transferred within 30 days. No exceptions were noted.

Table 6.0: CHP Accounts Payables and Due to Los Angeles County

Payables	2009	2008
Accounts Payable	\$ 2,628,985	\$ 2,952,965
Amount due to Los Angeles County	7,931,988	10,761,422
Total Payables per Financial Statements	48,511,328	46,769,693
Total Payables based on amounts paid	\$ 48,511,328	\$ 46,769,693
No Change	\$0	\$0

Claims Payable and IBNR

Results: Claims payable is comprised of claims payable, claims pending adjudication, and a liability for claims where services have been rendered by a medical service provider but the claim has not been received as of the balance sheet date (IBNR), reduced by management's estimate of the amount that will be denied. CHP loads claims data into the claims or patient management system and uses the pre-adjudicated or "billed amount" in its estimate of claims payable and IBNR liabilities. Claims payable and payable /pending adjudication is based on the billed amount that is adjusted by an estimate for claims that will be denied and adjudicated paid amounts. In addition, the plan bases its IBNR estimate on a lag model that lags the date of services to date of the claim was received. This lag model methodology specifically calculates IBNR and claims payable is based on actual claims received and entered into the claims system.

MGO identified the accruals for claims payable and IBNR exceeded the amount of paid claims for year 2009 and 2008 by \$2,177,515 and \$4,180,784, respectively. The Interim 3/31/2010 appears to be over accrued also by \$11,403,561.

The plan subsequently performed another estimate of IBNR for June 30, 2009 and June 30, 2010 which was based on a date of service to date paid lag model. However, this model was based on the billed charges of the claim and not the actual paid amount. Because the model was based on billed charges, CHP applies a factor, based on historical information, to adjust the calculated IBNR to paid amounts.

CHP's claims liability significantly jumped as of March 31, 2010 and June 30, 2010 to \$23 million and \$22 million, respectively. CHP explained this jump due to the providers submitting their claims for reimbursement sooner and CHP paying the claims sooner. Because the lag tables and completion factors are based on date of service to date of receipt, and CHP paying the claims sooner, the completion factors will be skewed, generating higher estimates of IBNR.

Because CHP only had four months of subsequent paid claims data for 3/31/2010 month of service, we calculated the accrual on a paid claim lag model for 3/31/2010 and prior quarters. We compared the paid amounts per paid lag model to the claims run amount for 2009 as shown in Table 7.0 and Table 8.0

We compared the monthly amount of claims paid each month in 2009 and 2010 and found that the amounts did not fluctuate or increase by material amounts that would support an increase in IBNR. In

**COUNTY OF LOS ANGELES
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
FOR THE PERIODS ENDED JUNE 30, 2008, JUNE 30, 2009, AND MARCH 31, 2010**

addition, total enrollment increased by 7% from June 30, 2009 to June 20, 2010. It does not appear that a 7% increase in enrollment would support an approximately 100% increase in IBNR and claims payable for the same time period.

Table 7.0: CHP Claims Payable and Incurred But Not Reported (IBNR) Reported Amounts

Claims/IBNR per Financial Statements	3/31/2010	6/30/2009	6/30/2008
Claims payable	\$ 2,960,209	\$ 1,708,162	\$ 2,441,589
IBNR	\$20,218,352	\$ 10,526,202	\$9,804,409
Total Per Financial Statements	\$23,178,561	\$12,234,364	\$12,245,998

Table 8.0: CHP Claims and IBNR Reported Amounts, Verified

	Claims Payable and IBNR @ 3/31/2010	Claims Payable and IBNR @6/30/ 2009	Claims Payable and IBNR @ 6/30/2008
Amount Reported	\$ 23,178,561	\$ 12,234,364	\$ 12,245,998
Amount per run out/ or paid lag	\$ 11,775,000	\$ 11,220,528	\$ 8,115,089
Variance	\$ 11,403,561	\$ 1,013,836	\$ 4,130,909

As noted above CHP has a variance with its incurred but not received (IBNR) claims liability for June 30, 2008 and 2009, and March 31, 2010. We calculated the potential variance of IBNR (\$11 million) that would impact profitability of CHP. An adjustment for the variance could increase net income from \$14 million to \$26 million. See Attachment 5-3-1 for Statement of Operations by Line of Business FYE 2010 (adjusted).

Agreed upon procedures #2: For the revenue reported, determine the amount attributable to current fiscal year and the amount of retroactive revenue recognized for retroactive rate increases or increase in membership for the two fiscal years noted above.

Results: For the revenue reported, \$256,150,167 is attributable to current fiscal year and \$6,779,787 is retroactive revenue recognized for retroactive rate increases for FY2008-2009. For FY2007-2008, the current fiscal year revenue is \$241,519,824 and retroactive revenue is \$5,774,033. As shown in Table 9.0, CHP's revenue is generated from contracts with LA Care Health Plan, MRMIB, and IHSS. Medi-Cal revenue received from LA Care Health Plan is subject delayed payments resulting from retroactive eligibility for Medi-Cal members. A Medi-Cal eligible member can be either retroactively added or deleted from the Medi-Cal program. Most retroactive adds occur within the first two months of a stated month of service and retroactive deletes can occur 12 months from the original month of service. Payment rate adjustments for Medi-Cal eligibility categories can either increase or decrease during the year and retroactive rate adjustments can occur for prior years of service. The County DHS can also receive additional payments through the Managed Care Supplemental Rate process via Intra-Governmental Transfer (IGT). The payments "pass through" CHP and are not recorded on CHP's books.

**COUNTY OF LOS ANGELES
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
FOR THE PERIODS ENDED JUNE 30, 2008, JUNE 30, 2009, AND MARCH 31, 2010**

Table 9.0: CHP Sources of Revenue

Reported	2009	2008
Capitation Premium by Source	\$ 262,929,954	\$ 241,519,824
Medi-Cal	154,976,774	142,285,954
IHSS	93,593,130	83,431,135
Healthy Family	14,351,786	15,797,044
Other	8,264	5,691
Total	\$ 262,929,954	\$ 241,519,824

Table 10.1 Retroactive Revenue FYE 2007-08

	Medi Cal	IHSS	Healthy Family
Per GL	\$ 142,285,954.00	\$ 83,431,135.00	\$ 15,797,044.00
Medi Cal Payments from LA Care - Current Fiscal Year	135,675,468.12		
Medi Cal 2.8% Rate Increase - Current Fiscal Year	3,851,664.61		
Medi Cal 2.8% Rate Increase - Prior Fiscal Year	1,870,560.21		
Medi Cal Rate increase - Current Fiscal Year	-		
Medi Cal HYDE - Current Fiscal Year	745,222.93		
Medi Cal ABR - Current Fiscal Year	79,291.68		
Medi Cal ABR - Prior Fiscal Year	36,908.08		
Medi Cal ABR - Next Fiscal Year	14,900.37		
Court - Current Fiscal Year	11,937.96		
Healthy Family - Current Fiscal Year			15,797,044.18
IHSS - Current Fiscal Year		83,431,134.98	
Total	\$ 142,285,953.96	\$ 83,431,134.98	\$ 15,797,044.18

**COUNTY OF LOS ANGELES
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
FOR THE PERIODS ENDED JUNE 30, 2008, JUNE 30, 2009, AND MARCH 31, 2010**

Table 10.2 Retroactive Revenue FYE 2008-09

	Medi-Cal	IHSS	Healthy Family
Per GL	\$ 154,976,774.00	\$ 93,593,130.00	\$ 14,351,786.00
Medi Cal Payments from LA Care - Current Fiscal Year	147,121,617.97		
Medi Cal 2.8% Rate Increase - Current Fiscal Year	3,115,025.26		
Medi Cal 2.8% Rate Increase - Prior Fiscal Year			
Medi Cal Rate increase - Current Fiscal Year	3,568,853.05		
Medi Cal HYDE - Current Fiscal Year	972,852.88		
Medi Cal ABR - Current Fiscal Year	113,861.40		
Medi Cal ABR - Prior Fiscal Year	95,909.15		
Medi Cal ABR - Next Fiscal Year			
Court - Current Fiscal Year	(11,345.82)		
Healthy Family - Current Fiscal Year			14,351,786.15
IHSS - Current Fiscal Year		93,593,130.32	
Total	\$ 154,976,773.89	\$ 93,593,130.32	\$ 14,351,786.15

Table 11.0: Inter-Governmental Transfer Payments

Schedule of Inter-Government Transfer Payments Pass Through to Department of Health Services		
Date	Description	Amount
3/11/2009	IGT Payment	\$74,661,327
3/30/2009	IGT Payment	\$74,670,000
6/30/2010	IGT Payment	\$68,000,000
8/11/2010	IGT Payment	\$ 6,794,826

The table above shows the IGT payments being received and passed on to the Department of Health Services. These amounts are properly not recorded on CHP's books.

Per discussion with John Wallace from LA Care Health Plan (LA Care), LA Care normally adjusts CHP's rate whenever there is rate adjustment from the State. LA Care keeps 6 percent administrative costs and passes on the remaining to CHP. Based upon our review of change orders, LA Care may not have adjusted the CHP rate as a result of the change order. But MGO was not able to identify the relationship between the rates described on the change order with the rates granted to CHP.

**COUNTY OF LOS ANGELES
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
FOR THE PERIODS ENDED JUNE 30, 2008, JUNE 30, 2009, AND MARCH 31, 2010**

Some retroactive rate adjustments were identified as being needed to be applied to another period; however the retroactive adjustments appears to be immaterial for FYE 2008 the retroactive adjustment is 1 percent and for FYE 2009 the retroactivity is less than 1 percent. MGO also noted per the contract with LA Care and the contracts between CHP an the medical service providers, CHP is not required to pass on retro rate adjustments to the medical service provider.

Agreed upon procedure #3: *Perform a detailed review of all capitation contracts (including DHS facilities) and determine if amounts being recorded as receivables for capitated services are valid according to contract terms and if there is capacity at provider levels to repay the amounts accrued as receivables as of the balance sheet dates noted above. For each capitation contract, list the expiration date; determine if there have been any changes in compensation since July 1, 2008 or if there are any future scheduled capitation increases.*

Results: MGO determined if the capitation paid to providers was accurate. MGO selected a sample of capitation contracts to verify that the capitation rates paid to the providers agree to the provider contract. MGO selected a sample of capitation payments for 2008 and 2009 and verified that the enrollment count used for payment was accurate and the capitation rate used agreed to the provider contract except for one capitation payment made to AHMC Monterey Park Hospital. The rates used to calculate the AHMC Monterey Park Hospital for the month of May 2008 do not agree with the contracts on file. CHP was not able to locate the contract amendment that would show the rates.

MGO reviewed provider contracts to determine if the contracts contained any provision for any risk pool or risk sharing arrangements to verify that there were no unrecorded liabilities or expenditures. For the contracts reviewed, none of the contracts contained any risk pool or risk sharing arrangements. CHP contract manager also confirmed that the contracts do not contain risk sharing arrangements. Since March 2009, CHP has added future capitation increase clause in contracts with some non county providers. CHP does have a process in place to collect receivables owed by providers and CHP can cap-deduct providers when CHP pays a claim on behalf of the provider. The County's Treasurer Tax Collector (TCC) has been working closely with CHP over the past few months to set up a protocol for transferring the receivables from CHP to TTC for further action after CHP has exhausted its ability to recover the monies owed. CHP will send three memo bills to the exiting contractor that owes monies to CHP after the run out of claims has been paid. CHP has allowed up to 24 months for providers that may have been harmed by exiting contractors, to bill their unpaid claims in for review by CHP and possible payment. This is open to both providers that were "In-Network" and "Out of Plan". The In-Network providers are paid at the lower of their contract rates with the exiting contractor or CHP's usual and customary rates for the specific product line. The Out of Plan Providers are paid at CHP's usual and customary rates for the specific product line.

CHP does have receivables from providers over 90 days old and is working with the County's TTC office to assist in collection. CHP should set up allowances for the amounts over 90 days outstanding. Since the receivables due from health care providers were all over 90 days outstanding MGO is recommending an allowance be established and since the amounts would be included in the allowance MGO did not review the financial standing of the providers.

See Attachment 3-1 for a list of provider contracts reviewed

See Attachment 3-2 for a list of receivables at June 30, 2009, outstanding as of June 30, 2010.

**COUNTY OF LOS ANGELES
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
FOR THE PERIODS ENDED JUNE 30, 2008, JUNE 30, 2009, AND MARCH 31, 2010**

Agreed upon procedure #4: Determine and document how allowance for denied claims was computed for June 30, 2009. Test a sample of denied claims and determine if denial was appropriate or if claim was subsequently paid on appeal or should have been paid even if appeal not filed. Determine as a percentage, amount paid for claims with dates of service prior to June 30, 2009 with total claims adjudicated with dates of service prior to June 30, 2009. Compare the results of the sample and payment percentage with the allowance percentage contained in the audit for claims.

Results: Based on our sample of denied claims, the claims were appropriately denied. We also reviewed the calculation of the allowance and found it was reasonable. In addition, we reviewed denied claims that were appealed through the provider dispute resolution system and found that for those claims denied and subsequently appealed, 30 percent of the appealed claims were overturned and paid. However, the total number of appealed claims appears to be small with only 1,293 appeals which is less than one percent of the total denied claims.

Table 12 Summary of Denied Claims

	FY 08-09	Comment
Total Billed Claims (Dollars)	\$13,837,944	
Total Denied Claims (Dollars)	\$11,562,813	Percent Denied 83.3%
Total Claims Paid (Dollars)	\$1,583,061	Percent Paid 10.8%
Interest paid	\$31,571	
Penalties	\$190	
Total Denied Claims (Count)	\$ 227,210	
PDR Claims (Count)	\$ 1,293	
Overturned claim paid with interest	\$ 381	Percent of denied claims paid on appeal is less than 1%

Agreed Upon Procedure #5: Trace to underlying financial records and analysis, a report of profitability by service line for June 30, 2008, June 30, 2009 and March 31, 2010, (if CHP has such a report available). Determine assumptions and allocations are consistent with annual audited financial statements, if not please identify any material differences. If no report is available from CHP, then prepare a statement of income by service line as of June 30, 2008, June 30, 2009 and March 31, 2010 in accordance with professional standards.

Results: The method and assumptions used by CHP in identifying revenues and expenses are consistent and no significant differences in allocations were identified. .

See Attachment 5-1, 5-2, and 5-3 for Schedules of Operations by Line of Business.

Agreed Upon procedure #6: Obtain a schedule of CHP's administrative cost detail by category for the fiscal years ended June 30, 2008 and June 30, 2009. Determine if OMC's assignment of costs between Medical and Administrative follows industry trends (or standards) and the LA Care provided template. Identify and schedule any cost allocations from non-CHP entities for both fiscal years. Obtain a schedule of the number of Full Time Equivalent (FTE) employees by function for each fiscal year.

**COUNTY OF LOS ANGELES
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
FOR THE PERIODS ENDED JUNE 30, 2008, JUNE 30, 2009, AND MARCH 31, 2010**

Obtain a schedule of amounts paid for professional and consulting services by each payee and by contract with identification of services provided.

Results: MGO obtained schedules and reviewed workpapers to determine CHP prepared expenses in its financial records. MGO noted that salaries and expenses for staff that process claims were classified as a medical expense. These expenses should have been classified as administrative per section 1300.78 of the California Code of Regulations.

See Attachment 6-1 for Schedule of Administrative and Medical Expenses.

See Attachment 6-2 for Schedule of Professional and Consulting Services

See Attachment 6-3 for Schedule of Administrative Expenses (Non S&EB) by Function

See Attachment 6-4 for Schedule of Full-Time Equivalent (FTE) and Salaries and Employee Benefits (S&EB) by Function

See Attachment 6-5 for Schedule of Allocation from Non-CHP Entities

Agreed Upon procedure #7: Compare actual results of operations for the most recent internal financial statement with original approved budget as of March 31, 2010. Compare final operating results for fiscal years ending June 30, 2008 and 2009 with original approved budgets.

Results: No exceptions were noted.

See Attachment 7-1 for Schedule of Budget to Actual Comparison for 2008

See Attachment 7-2 for Schedule of Budget to Actual Comparison for 2009

See Attachment 7-3 for Schedule of Budget to Actual Comparison for 2010

Agreed upon procedure #8: Obtain 2010-2011 Budget with detailed assumptions from CHP. Determine whether procedures for budget preparation and preparation of financial statements are the same. Document variation in procedures for preparing budget and any procedures or assumptions used to prepare annual financial statements.

Results: MGO reviewed the budget and related assumptions for FY 2010-11; procedures for the budget preparation and preparation of the financial statements are the same.

See Attachment 8 for the 2010-2011 budget and assumptions.

Agreed Upon Procedure # 9: Verify for County Fiscal Years 2007-08 and to the extent possible 2008-09, the surplus or shortfall of funding to DHS facilities based on capitation payments to DHS facilities from CHP taking into account payments to out of plan and contracted non-DHS facilities as well as the cost to provide care to the membership that receives services directly from DHS facilities. Summarize key terms of each contract with DHS facilities including covered services and any carved out services (services not included in capitation).

**COUNTY OF LOS ANGELES
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
FOR THE PERIODS ENDED JUNE 30, 2008, JUNE 30, 2009, AND MARCH 31, 2010**

Results: We provided a schedule of capitation paid to DHS and non DHS facilities to compare payments to DHS and non-DHS facilities. Capitation paid to DHS facilities appears [REDACTED] than what is paid to non DHS facilities; however, we were not able to make adjustments for the various differences in the division of financial responsibility between the non-county facilities. See attachment 9-1 for Schedule of Capitation Distribution

County DHS provided revenue and cost data for CHP Medi-Cal Managed Care for Fiscal Year 2006-07, which is outside the scope of work. Per County DHS 07/08 data would not be available until late December or Early January. We decided to present the FY 2006-07 data since it was the only complete data the county felt was accurate and complete, we included it in the summary Table 13 below. The County provided the revenue cost data on October 25, 2010. Because of the late date in which we received the data, we were only able to review the county's methodology and perform limited testing of the information.

As described by the County DHS, data for FY 2006-07 was prepared as follows; The County DHS received a monthly listing of all Medi-Cal CHP beneficiaries from the Office of Managed Care - Finance for 2006-07. That file was matched against the hospital data base of services provided at county hospitals by the county Fiscal Programs Division. The data included days, visits and relative value units (rvus). A pivot table of services was generated and provided to Program Audits and Reimbursement Division. The statistical data from the pivot table was loaded into a P-14 workbook format. The P-14 workbook refers to the P-14 of the Special Terms and Conditions of the Medi-Cal Redesign waiver. P-14 establishes the reimbursement parameters. The cost of days, visits and rvus are multiplied by the statistics for Medi-Cal CHP beneficiaries from the pivot tables. Additional cost for out-of-plan services are taken from Medi-Cal cost reports and added as an additional cost of services provided. Revenue is provided by Fiscal Programs Division.

Table 13 summarizes cost and revenue by prepared County DHS for FY 2006-07.

Table 13 Summary of Medi-Cal Revenue and Expense by DHS Hospital FY 2006-07

DHS Facility	LAC+USC	H/UCLA	OV/UCLA	Total
Total Revenue	\$ 11,287,483	\$ 9,444,047	\$ 3,928,690	\$ 24,660,220
Total Cost	\$ 15,782,934	\$ 12,256,121	\$ 7,995,260	\$ 36,034,315
Revenue to Cost %	71.5%	77%	49%	68%

**COUNTY OF LOS ANGELES
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
ATTACHMENT 3-1
LIST OF CONTRACTS TESTED**

Funding	Provider Name	Type
Medi-Cal Gross Capitation	AHMC Garfield Medical Center	Hospital
Medi-Cal Gross Capitation	Antelope Valley Cluster	DHS
Medi-Cal Gross Capitation	California Hospital Med Ctr	Hospital
Medi-Cal Gross Capitation	Centinela Freeman Healthsystem	Hospital
Medi-Cal Gross Capitation	CFHS aff Global Care Med Grp	Hospital
Medi-Cal Gross Capitation	CFHS aff HCLA	Hospital
Medi-Cal Gross Capitation	CFHS aff LaVida	Hospital
Medi-Cal Gross Capitation	Costal Cluster	DHS
Medi-Cal Gross Capitation	Community Family Care	Prof
Medi-Cal Gross Capitation	Health Care L.A. IPA	Prof
	Health Care L.A. affiliated with CFHS	Prof
	Health Care L.A. affiliated with California Hospital	Prof
	Health Care L.A. affiliated with CVHP	Prof
	Health Care L.A. affiliated with VHP	Prof
Medi-Cal Gross Capitation	LAC+USC Medical Center	DHS
Medi-Cal Gross Capitation	Physicians' Healthway Med Group	Prof
Medi-Cal Gross Capitation	San Fernando Valley Cluster	DHS
Medi-Cal Gross Capitation	Southwest Cluster	DHS
Medi-Cal Gross Capitation	Valley Presbyterian Hospital	Hospital
Medi-Cal Gross Capitation	AHMC Monterey Park Hospital	Hospital
Medi-Cal Gross Capitation	Global Care Medical Group	Prof
	CFHS Holdings, Inc	
	California Hospital Med Ctr	
	Memorial Hospital of Gardena	
	Hollywood Presbyterian Medical Center	
	Long Beach Memorial Medical Center	
Medi-Cal Gross Capitation	La Vida Medical Group & IPA	Prof
	a. East Los Angeles	Prof
	b. Gardena	Prof
	c. Long Beach	Prof
Medi-Cal Gross Capitation	Altamed Health Services Corp.	Prof
Medi-Cal Gross Capitation	Asian Community Medical Group	Prof
Medi-Cal Gross Capitation	Bellflower Medical Center	Hospital
Medi-Cal Gross Capitation	Citrus Valley Health Partners	Hospital
Medi-Cal Gross Capitation	OMNICARE Medical Group	Prof
Medi-Cal Gross Capitation	Memorial Hospital of Gardena	Hospital
Medi-Cal Gross Capitation	Pomona Valley Medical Group	Prof
IHSS Capitation	Coastal Cluster	DHS
IHSS Capitation	LAC+USC Medical Center	DHS
IHSS Capitation	Medical Service Providers (County)	DHS MOU
IHSS Capitation	San Fernando Valley Cluster	DHS
IHSS Capitation	Pacificare Behavioral Health of California	
IHSS Capitation	Antelope Valley Cluster	DHS
IHSS Capitation	Southwest Cluster	DHS
Health Families Capitation	Health Net of California, Inc.	
Health Families Capitation	L.A. Care Health Plan	

**COUNTY OF LOS ANGELES
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
ATTACHMENT 3-2**

FY 08/09 RECEIVABLES STILL OUTSTANDING AS OF JUNE 30, 2010

Contract	Provider	
Expired Contracts - Medical		Amount
H-701057-1	AHMC MONTEREY PARK HOSPITAL	\$ 3,424.75
H-207664-4	JOY MEDICAL ASSOCIATES, INC.	4,453.82
H-701001-1	CENTINELA FREEMAN HEALTHSYSTEM w/Capnet	2,949.92
H-701002-3	CENTINELA FREEMAN HEALTHSYSTEM w/Global	6,039.52
H-702443-3	CENTINELA FREEMAN HEALTHSYSTEM w/HCLA	139.50
H-700922-1	JOY MEDICAL ASSOCIATES, INC.	28,628.08
H-701057-1	BELLFLOWER MEDICAL CENTER	67,562.58
H-212376	East L.A. Doctor's Hospital w/ Joy IPA	3,188.19
H-702333-2	COMMUNITY AND MISSION HOSP OF HUNTINGTON PARK	200,272.12
H-702334-3	CENTINELA FREEMAN HEALTHSYSTEM	8,306.39
H-207823	VALLEY PRESBYTERIAN HOSPITAL W/ NVHC	15,908.48
Expired Contracts - Healthy Families		
H-211420-3	ALTAMED / CVHP	110.65
H-701857	COMMUNITY AND MISSION HOSP OF HUNTINGTON PARK	78.37
H-211301-3	CITRUS VALLEY PHYSICIANS' GROUP	39.69
H-211226-3	CITRUS VALLEY HEALTH PARTNERS	228.29
H-211225-3	CITRUS VALLEY HEALTH PARTNERS	105.07
Expired Contracts - IN Home supportive service		
H-207550	JOY MEDICAL ASSOCIATES, INC.	68,011.16
	CAPNET OOP	
	Medi-Cal	
H-211879-5	Capnet (Shared Risk)	35,543.56
H-212020-4	Capnet (Full Risk)	186,564.11
H-701342-1	Capnet IPA /(Community Hospitals of Huntington Park)	4,758.30
H-700921-1	Capnet (Centinela Freeman HealthSystems)	1,273.76
Healthy Families		
H-701143	Capnet IPA /(Community Hospitals of Huntington Park)	2,987.88
H-701144	Capnet (Full Risk)	154.43
	Total	\$ 640,728.62

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
OFFICE OF MANAGED CARE - COMMUNITY HEALTH PLAN
Statements of Revenues and Expenses by Line of Business
For Fiscal Year Ended June 30, 2008
Attachment 5-1

	Healthy Families Program (HFP)	In-Home Supportive Services (IHSS)	Medi-Cal (M/C)	Total
Revenue				
Capitation premiums	\$ 15,797,044	\$ 83,433,106	\$ 142,285,955	\$ 241,516,105
Operating expenses				
Cost of health care services:				
Capitation premiums	14,075,119	64,155,450	88,377,084	166,607,653
Medical services	44,808	2,232,508	3,849,262	6,126,578
Pharmacy	256,024	2,430,769	11,632,835	14,319,628
Medical supplies	63,614	114,743	1,731,846	1,910,203
Total cost of health care services	<u>14,439,565</u>	<u>68,933,470</u>	<u>105,591,028</u>	<u>188,964,063</u>
General and administrative:				
Salaries and employees benefits	677,357	2,817,892	12,295,524	15,790,773
Professional and consulting services	308,274	961,642	4,952,738	6,222,654
Rent	4,212	21,117	92,380	117,710
Office expense	278,932	1,398,395	6,117,413	7,794,740
Communication	21,971	110,149	481,857	613,976
Miscellaneous	661	3,315	14,504	18,480
Total general and administrative expenditures	<u>1,291,407</u>	<u>5,312,511</u>	<u>23,954,416</u>	<u>30,558,334</u>
Total operating expenses	<u>15,730,972</u>	<u>74,245,981</u>	<u>129,545,444</u>	<u>219,522,397</u>
Operating income (loss)	66,072	9,187,125	12,740,511	21,993,708
Nonoperating revenues				
Interest income	-	-	1,596,094	1,596,094
Other revenues	-	-	3,921,264	3,921,264
Total nonoperating revenues	<u>-</u>	<u>-</u>	<u>5,517,358</u>	<u>5,517,358</u>
Income (loss)	<u>\$ 66,072</u>	<u>\$ 9,187,125</u>	<u>\$ 18,257,869</u>	<u>\$ 27,511,066</u>

Notes:

- 1 Statements of Revenues and Expenses by Line of Business are prepared based on audited financial statements for fiscal years ended June 30, 2008 and 2009.
- 2 Statements of Revenues and Expenses by Line of Business are prepared based on unaudited financial statements for fiscal years ended June 30, 2010.
- 3 Statements of Revenues and Expenses by Line of Business do not include Healthy Way LA and ICP.
- 4 Medical services for fiscal years ended June 30, 2009 include the following:
 - a. Expense paid for nurse advice line, complex case management, and disease management
 - b. Salaries and benefits for clinical quality management, utilization management, pharmacy and formulary, health education, and claim processing units
- 5 Medical services for fiscal years ended June 30, 2010 include the following:
 - a. Expense paid for nurse advice line, complex case management, and disease management
 - b. Expenses paid for HEDIS
 - c. Expenses paid for paid for performance (P4P) program
 - d. Salaries and benefits for other medical administration and claim processing units
- 6 Capitation premiums and cost of health care services, except for salaries and benefits are allocated to line of business based on actual cost.
- 7 Fulfillment and membership mailing, which is included as part of professional and consulting services, is allocated to line of business based on actual cost.
- 8 Salaries and benefits are allocated monthly to line of business based on estimated annual member enrollments.
- 9 The remaining general and administrative expenses is allocated to line of business based on annual member enrollments.
- 10 Other revenues is related to Quality Improvement Fund (QIF) fund for Medi-Cal received from LA Care. Out of \$3,921,264 received in fiscal year 2008, \$2,566,097 is related to prior fiscal years.
- 11 Interest income is from Medi-Cal's interest bearing account.

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
OFFICE OF MANAGED CARE - COMMUNITY HEALTH PLAN
Statements of Revenues and Expenses by Line of Business (Adjusted)
For Fiscal Year Ended June 30, 2008
Attachment 5-1-1

	Healthy Families Program (HFP)	In-Home Supportive Services (IHSS)	Medi-Cal (M/C)	Total
Revenue				
Capitation premiums	\$ 15,797,044	\$ 83,433,106	\$ 142,285,955	\$ 241,516,105
Operating expenses				
Cost of health care services:				
Capitation premiums	14,075,119	64,155,450	88,377,084	166,607,653
Medical services	298,981	3,295,545	9,079,665	12,674,191
Pharmacy	256,024	2,430,769	11,632,835	14,319,628
Medical supplies	63,614	114,743	1,731,846	1,910,203
Total cost of health care services	<u>14,693,738</u>	<u>69,996,507</u>	<u>110,821,431</u>	<u>195,511,675</u>
General and administrative:				
Salaries and employees benefits	482,877	1,842,886	8,030,265	10,356,028
Professional and consulting services	248,582	873,612	3,987,593	5,109,786
Rent	4,212	21,117	92,380	117,710
Office expense	278,932	1,398,395	6,117,413	7,794,740
Communication	21,971	110,149	481,857	613,976
Miscellaneous	661	3,315	14,504	18,480
Total general and administrative expenditures	<u>1,037,235</u>	<u>4,249,474</u>	<u>18,724,013</u>	<u>24,010,721</u>
Total operating expenses	<u>15,730,972</u>	<u>74,245,981</u>	<u>129,545,444</u>	<u>219,522,397</u>
Operating income (loss)	66,072	9,187,125	12,740,511	21,993,708
Nonoperating revenues				
Interest income	-	-	1,596,094	1,596,094
Other revenues	-	-	1,355,167	1,355,167
Total nonoperating revenues	<u>-</u>	<u>-</u>	<u>2,951,261</u>	<u>2,951,261</u>
Income (loss)	<u>\$ 66,072</u>	<u>\$ 9,187,125</u>	<u>\$ 15,691,772</u>	<u>\$ 24,944,969</u>

Notes:

- 1 Medical services are reclassified in accordance with June 30, 2010 to include the following:
 - a. Expense paid for nurse advice line, complex case management, and disease management
 - b. Expenses paid for HEDIS
 - c. Expenses paid for paid for performance (P4P) program
 - d. Salaries and benefits for other medical administration
- 2 \$2,566,097 of other revenues for fiscal year June 30, 2008 related to Quality Improvement Fund (QIF) fund for Medi-Cal received from LA Care was reclassified out because it's related to prior years.

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
OFFICE OF MANAGED CARE - COMMUNITY HEALTH PLAN
Statements of Revenues and Expenses by Line of Business
For Fiscal Year Ended June 30, 2009
Attachment 5-2

	Healthy Families Program (HFP)	In-Home Supportive Services (IHSS)	Medi-Cal (M/C)	Total
Revenue				
Capitation premiums	\$ 14,342,970	\$ 93,564,534	\$ 155,014,186	\$ 262,921,690
Operating expenses				
Cost of health care services:				
Capitation premiums	12,671,286	71,060,163	98,135,822	181,867,270
Medical services	593,479	2,562,145	11,703,408	14,859,032
Pharmacy	323,631	3,212,921	14,797,265	18,333,817
Medical supplies	(12,619)	(233,627)	(1,235,646)	(1,481,892)
Total cost of health care services	<u>13,575,776</u>	<u>76,601,602</u>	<u>123,400,849</u>	<u>213,578,226</u>
General and administrative:				
Salaries and employees benefits	451,977	2,493,929	10,453,328	13,399,234
Professional and consulting services	614,450	1,012,096	3,515,579	5,142,125
Rent	125,808	210,369	869,147	1,205,323
Office expense	750,328	1,254,657	5,183,668	7,188,653
Communication	69,364	115,987	479,206	664,557
Miscellaneous	78	130	537	745
Total general and administrative expenditures	<u>2,012,004</u>	<u>5,087,168</u>	<u>20,501,465</u>	<u>27,600,638</u>
Total operating expenses	<u>15,587,780</u>	<u>81,688,771</u>	<u>143,902,314</u>	<u>241,178,864</u>
Operating income (loss)	<u>(1,244,809)</u>	<u>11,875,763</u>	<u>11,111,872</u>	<u>21,742,826</u>
Nonoperating revenues				
Interest income	-	-	626,426	626,426
Other revenues	-	-	1,407,214	1,407,214
Total nonoperating revenues	<u>-</u>	<u>-</u>	<u>2,033,640</u>	<u>2,033,640</u>
Income (loss)	<u>\$ (1,244,809)</u>	<u>\$ 11,875,763</u>	<u>\$ 13,145,512</u>	<u>\$ 23,776,466</u>

Notes:

- 1 Statements of Revenues and Expenses by Line of Business are prepared based on audited financial statements for fiscal years ended June 30, 2008 and 2009.
- 2 Statements of Revenues and Expenses by Line of Business are prepared based on unaudited financial statements for fiscal years ended June 30, 2010.
- 3 Statements of Revenues and Expenses by Line of Business do not include Healthy Way LA and ICP.
- 4 Medical services for fiscal years ended June 30, 2009 include the following:
 - a. Expense paid for nurse advice line, complex case management, and disease management
 - b. Salaries and benefits for clinical quality management, utilization management, pharmacy and formulary, health education, and claim processing units
- 5 Medical services for fiscal years ended June 30, 2010 include the following:
 - a. Expense paid for nurse advice line, complex case management, and disease management
 - b. Expenses paid for HEDIS
 - c. Expenses paid for paid for performance (P4P) program
 - d. Salaries and benefits for other medical administration and claim processing units
- 6 Capitation premiums and cost of health care services, except for salaries and benefits are allocated to line of business based on actual cost.
- 7 Fulfillment and membership mailing, which is included as part of professional and consulting services, is allocated to line of business based on actual cost.
- 8 Salaries and benefits are allocated monthly to line of business based on estimated annual member enrollments.
- 9 The remaining general and administrative expenses is allocated to line of business based on annual member enrollments.
- 10 Interest income is from Medi-Cal's interest bearing account.

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
OFFICE OF MANAGED CARE - COMMUNITY HEALTH PLAN
Statements of Revenues and Expenses by Line of Business (Adjusted)
For Fiscal Year Ended June 30, 2009
Attachment 5-2-1

	Healthy Families Program (HFP)	In-Home Supportive Services (IHSS)	Medi-Cal (M/C)	Total
Revenue				
Capitation premiums	\$ 14,342,970	\$ 93,564,534	\$ 155,014,186	\$ 262,921,690
Operating expenses				
Cost of health care services:				
Capitation premiums	12,671,286	71,060,163	98,135,822	181,867,270
Medical services	659,255	2,942,948	13,543,664	17,145,867
Pharmacy	323,631	3,212,921	14,797,265	18,333,817
Medical supplies	(12,619)	(233,627)	(1,235,646)	(1,481,892)
Total cost of health care services	<u>13,641,552</u>	<u>76,982,405</u>	<u>125,241,105</u>	<u>215,865,062</u>
General and administrative:				
Salaries and employees benefits	386,200	2,113,127	8,879,776	11,379,103
Professional and consulting services	614,450	1,012,096	3,248,875	4,875,420
Rent	125,808	210,369	869,147	1,205,323
Office expense	750,328	1,254,657	5,183,668	7,188,653
Communication	69,364	115,987	479,206	664,557
Miscellaneous	78	130	537	745
Total general and administrative expenditures	<u>1,946,228</u>	<u>4,706,366</u>	<u>18,661,209</u>	<u>25,313,803</u>
Total operating expenses	<u>15,587,780</u>	<u>81,688,771</u>	<u>143,902,314</u>	<u>241,178,864</u>
Operating income (loss)	<u>(1,244,809)</u>	<u>11,875,763</u>	<u>11,111,872</u>	<u>21,742,826</u>
Nonoperating revenues				
Interest income	-	-	626,426	626,426
Other revenues	-	-	1,407,214	1,407,214
Total nonoperating revenues	<u>-</u>	<u>-</u>	<u>2,033,640</u>	<u>2,033,640</u>
Income (loss)	<u>\$ (1,244,809)</u>	<u>\$ 11,875,763</u>	<u>\$ 13,145,512</u>	<u>\$ 23,776,466</u>

Notes:

- 1 Medical services are reclassified in accordance with June 30, 2010 to include the following:
 - a. Expense paid for nurse advice line, complex case management, and disease management
 - b. Expenses paid for HEDIS
 - c. Expenses paid for paid for performance (P4P) program
 - d. Salaries and benefits for other medical administration
- 2 Salaries and benefits for claim processing are reclassified from medical services to salaries and employees benefits under general and administrative expenses.

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
OFFICE OF MANAGED CARE - COMMUNITY HEALTH PLAN
Statements of Revenues and Expenses by Line of Business
For Fiscal Year Ended June 30, 2010
Attachment 5-3

	Healthy Families Program (HFP)	In-Home Supportive Services (IHSS)	Medi-Cal (M/C)	Total
Revenue				
Capitation premiums	\$ 12,869,890	\$ 108,028,320	\$ 163,361,605	\$ 284,259,814
Operating expenses				
Cost of health care services:				
Capitation premiums	11,095,694	81,857,150	109,247,111	202,199,954
Medical services	569,567	5,638,350	18,947,766	25,155,683
Pharmacy	230,627	3,878,492	16,369,371	20,478,490
Medical supplies	-12,646	(218,427)	(1,196,676)	(1,427,748)
Total cost of health care services	<u>11,883,243</u>	<u>91,155,564</u>	<u>143,367,571</u>	<u>246,406,378</u>
General and administrative:				
Salaries and employees benefits	329,086	2,452,115	9,157,578	11,938,779
Professional and consulting services	458,304	467,019	3,365,147	4,290,471
Rent	29,821	233,343	961,702	1,224,866
Office expense	154,169	1,197,971	5,228,856	6,580,996
Communication	4,290	36,813	748,551	789,653
Miscellaneous	-	-	413	413
Total general and administrative expenditures	<u>975,670</u>	<u>4,387,260</u>	<u>19,462,246</u>	<u>24,825,177</u>
Total operating expenses	<u>12,858,913</u>	<u>95,542,824</u>	<u>162,829,818</u>	<u>271,231,555</u>
Operating income (loss)	<u>10,977</u>	<u>12,485,495</u>	<u>531,787</u>	<u>13,028,259</u>
Nonoperating revenues				
Interest income	-	-	1,551,348	1,551,348
Other revenues	-	8,251	242,932	251,183
Total nonoperating revenues	<u>-</u>	<u>8,251</u>	<u>1,794,280</u>	<u>1,802,531</u>
Income (loss)	<u>\$ 10,977</u>	<u>\$ 12,493,746</u>	<u>\$ 2,326,067</u>	<u>\$ 14,830,790</u>

Notes:

- 1 Statements of Revenues and Expenses by Line of Business are prepared based on audited financial statements for fiscal years ended June 30, 2008 and 2009.
- 2 Statements of Revenues and Expenses by Line of Business are prepared based on unaudited financial statements for fiscal years ended June 30, 2010.
- 3 Statements of Revenues and Expenses by Line of Business do not include Healthy Way LA and ICP.
- 4 Medical services for fiscal years ended June 30, 2009 include the following:
 - a. Expense paid for nurse advice line, complex case management, and disease management
 - b. Salaries and benefits for clinical quality management, utilization management, pharmacy and formulary, health education, and claim processing units
- 5 Medical services for fiscal years ended June 30, 2010 include the following:
 - a. Expense paid for nurse advice line, complex case management, and disease management
 - b. Expenses paid for HEDIS
 - c. Expenses paid for paid for performance (P4P) program
 - d. Salaries and benefits for other medical administration and claim processing units
- 6 Capitation premiums and cost of health care services, except for salaries and benefits are allocated to line of business based on actual cost.
- 7 Fulfillment and membership mailing, which is included as part of professional and consulting services, is allocated to line of business based on actual cost.
- 8 Salaries and benefits are allocated monthly to line of business based on estimated annual member enrollments.
- 9 The remaining general and administrative expenses is allocated to line of business based on annual member enrollments.
- 11 Interest income is from Medi-Cal's interest bearing account.

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
OFFICE OF MANAGED CARE - COMMUNITY HEALTH PLAN
Statements of Revenues and Expenses by Line of Business (Adjusted)
For Fiscal Year Ended June 30, 2010
Attachment 5-3-1

	Healthy Families Program (HFP)	In-Home Supportive Services (IHSS)	Medi-Cal (M/C)	Total
Revenue				
Capitation premiums	\$ 12,869,890	\$ 108,028,320	\$ 163,361,605	\$ 284,259,814
Operating expenses				
Cost of health care services:				
Capitation premiums	11,095,694	81,857,150	108,287,143	201,239,987
Medical services	538,145	5,392,416	18,947,766	24,878,326
Pharmacy	230,627	3,878,492	16,369,371	20,478,490
Medical supplies	(12,646)	(218,427)	(1,196,676)	(1,427,748)
Total cost of health care services	<u>11,851,820</u>	<u>90,909,631</u>	<u>142,407,604</u>	<u>245,169,055</u>
General and administrative:				
Salaries and employees benefits	360,509	2,698,048	10,117,546	13,176,103
Professional and consulting services	458,304	467,019	3,365,147	4,290,471
Rent	29,821	233,343	961,702	1,224,866
Office expense	154,169	1,197,971	5,228,856	6,580,996
Communication	4,290	36,813	748,551	789,653
Miscellaneous	-	-	413	413
Total general and administrative expenditures	<u>1,007,093</u>	<u>4,633,194</u>	<u>20,422,214</u>	<u>26,062,501</u>
Total operating expenses	<u>12,858,913</u>	<u>95,542,824</u>	<u>162,829,818</u>	<u>271,231,555</u>
Operating income (loss)	<u>10,977</u>	<u>12,485,495</u>	<u>531,787</u>	<u>13,028,259</u>
Nonoperating revenues				
Interest income	-	-	1,551,348	1,551,348
Other revenues	-	8,251	242,932	251,183
Total nonoperating revenues	<u>-</u>	<u>8,251</u>	<u>1,794,280</u>	<u>1,802,531</u>
Income (loss)	<u>\$ 10,977</u>	<u>\$ 12,493,746</u>	<u>\$ 2,326,067</u>	<u>\$ 14,830,790</u>
IBNR Adjustment				\$ 11,403,561
Adjusted Net Income				<u>\$ 26,234,351</u>

Notes:

- Salaries and benefits for claim processing are reclassified from medical services to salaries and employees benefits under general and administrative expenses.

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
OFFICE OF MANAGED CARE - COMMUNITY HEALTH PLAN
Schedule of Administrative Expenses
For Fiscal Years Ended June 30, 2009 and 2008
Attachment 6-1

	2009	2008
Salaries and employees benefits	\$ 13,399,234	\$ 15,790,773
Professional and consulting services	5,142,125	6,222,654
Rent	1,205,323	117,710
Office expense	7,188,653	7,794,740
Communication	664,557	613,976
Miscellaneous	745	18,480
	<hr/>	<hr/>
Total general and administrative per financial statements	27,600,638	30,558,334
Adjustment:		
Salaries and employees benefits for claim processing	970,429	-
	<hr/>	<hr/>
Total general and administrative per MGO	<u>\$ 28,571,067</u>	<u>\$ 30,558,334</u>
Cost of health care services:		
	2009	2008
Capitation premiums	\$ 181,867,270	\$ 166,607,653
Medical services	14,859,032	6,126,578
Pharmacy	18,333,817	14,319,628
Medical supplies	(1,481,892)	1,910,203
	<hr/>	<hr/>
Total cost of health care services per financial statements	213,578,226	188,964,063
Adjustment:		
Salaries and employees benefits for claim processing	(970,429)	-
	<hr/>	<hr/>
Total cost of health care services per MGO	<u>\$ 212,607,798</u>	<u>\$ 188,964,063</u>

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
OFFICE OF MANAGED CARE - COMMUNITY HEALTH PLAN
Schedule of Professional and Consulting Services
For Fiscal Years Ended June 30, 2009 and 2008
Attachment 6-2

Vendor	Purpose	2009	2008
AGS Consulting Services	P4P and Access & Availability development	\$ -	\$ 99,825
Alert Communications	Telephone answering support services	105,454	99,711
Buck Consultants	Actuary certification & annual statutory	8,340	91,650
Data Stat Inc	CAHPS survey for NCQA accreditation	66,742	30,582
Diversified Data Design Corp.	Encounter data processing	151,430	116,552
En Pointe Technologies	Computer supplies	13,036	-
Health Management Systems	Maintenance, support, & training for PMS	2,534,636	2,355,798
Hewlett-Packard Company	Server maintenance	3,232	-
Ingenix, Inc.	Claredi testing & certification (license renewal)	6,000	5,000
L.A. County Counsel	Legal Services	3,932	-
La Care Health Plan	Temporary staffing	608,958	734,585
La Care Health Plan	IHSS administrative services	-	1,147,414
Logic House, LTD	PMS replacement consultation	105,835	194,164
McKesson Health Solutions	NAL, CCM, & DM services	3,900,866	980,251
Metropolitan News Company	Advertising services	-	85
Milliman Care Guidelines LLC	Clinical guidelines	158,122	139,281
Morpace, Inc.	Acessibility to health care services	5,399	37,000
NCQA Publication	2008 HP standard & guidelines	-	14,765
New Millennium Construction Services	Construction services	12,575	-
Rx Relief	Pharmaceutical temp staffing	121,519	79,632
Simpson & Simpson	Annual independent audit	37,400	25,626
Standard Register Co.	Fulfillment & membership mailing	4,715,959	4,415,916
Syntro Limited	NCQA project consultation	154,622	134,720
Technologent	License for 4 domains	-	6,993
The Alhambra Office Community LLC	Parking & auditorium services	(9,826)	20,537
The J. Segal Company	HR consultant	-	29,533
Thomson Reuters	HEDIS compliance audit	28,067	-
TierMed Systems, LLC	NCQA HEDIS software certification	82,011	-
Vallee Electrical Services, Inc.	Permit and license fees	3,550	-
Total		\$ 12,817,860	\$ 10,759,621

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
OFFICE OF MANAGED CARE - COMMUNITY HEALTH PLAN
Schedule of Administrative Expenses (Non S&EB) by Function
For Fiscal Years Ended June 30, 2009 and 2008
Attachment 6-3

FUNCTIONS	2009	2008
<u>Medical Expense - Administrative</u>		
Case Management	\$ 167,867	\$ 175,346
Utilization Management	298,012	316,127
Disease Management	3,900,866	980,251
Quality Management	111,912	175,346
Health Education	83,934	25,049
Provider Site Reviews	223,823	150,296
Interpretation Services	81,338	102,995
Claims Processing	3,843,444	4,862,800
Pharmacy & Formula	167,867	125,247
Other Medical Administration	1,263,070	997,063
Total Medical Expense - Admin	10,142,132	7,910,518
<u>Non-Medical Admin Expenses</u>		
Executive Office	177,943	180,335
Compliance	61,287	25,049
Member Services	6,063,279	5,395,387
Operations/Provider Relations	549,677	530,066
Finance	515,621	427,559
Marketing	139,939	160,124
Information Systems	778,938	695,993
Total Non-Medical Admin	8,286,683	7,414,514
Grand Total	<u>\$ 18,428,816</u>	<u>\$ 15,325,031</u>

Notes:

- 1 The schedule is prepared based on LA Care template for medical admin expenses and CHP's actual units for non-medical admin expenses.
- 2 The expenses are classified into appropriate function, if they can be identified.
- 3 The remaining expenses are classified to function based to full-time equivalent (FTE).

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
OFFICE OF MANAGED CARE - COMMUNITY HEALTH PLAN
Schedule of Full-Time Equivalent (FTE) and Salaries and Employee Benefits (S&EB) by Function
For Fiscal Years Ended June 30, 2009 and 2008
Attachment 6-4

FUNCTIONS	FTE		S & EB	
	2009	2008	2009	2008
<u>Medical Expense - Administrative</u>				
Case Management ¹	6	7	\$ 681,322	\$ 702,256
Utilization Management ¹	5	7	911,543	802,797
Quality Management ¹	4	7	600,149	688,635
Pharmacy & Formula	6	5	492,502	494,707
Health Education	3	1	142,725	126,749
Provider Site Reviews	8	6	930,599	716,028
Total Medical Expense - Admin	32	33	3,758,840	3,531,172
<u>Non-Medical Admin Expenses</u>				
Executive Office	6	6	690,780	632,259
Compliance ²	2	1	235,621	128,144
Member Services	44	34	2,840,655	2,585,071
Claims Processing	21	17	1,035,901	747,141
Operations/Provider Relations	19	16	2,069,031	1,749,616
Finance	17	16	1,520,615	1,580,812
Marketing	5	6	250,136	600,931
Other Medical Administration	19	13	1,701,566	1,822,518
Information Systems	27	26	2,751,948	2,413,109
Total Non-Medical Admin	160	135	13,096,253	12,259,601
Grand Total	192	168	\$ 16,855,093	\$ 15,790,773

Notes:

- 1 Some employees, who worked for more than one unit, are prorated.
- 2 One of the employees, who worked for other department beginning October 23, 2008, was paid by CHP for the entire fiscal year 2008-09.
- 3 The schedule is prepared based on LA Care template for medical admin expenses and CHP's actual units for non-medical admin expenses.

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
OFFICE OF MANAGED CARE - COMMUNITY HEALTH PLAN
Schedule of Allocation from Non-CHP Entities
For Fiscal Years Ended June 30, 2009 and 2008
Attachment 6-5

Entities	2009	2008
Auditor-Controller	\$ 35,698	\$ 26,619
Board of Supervisors	16,426	16,208
Chief Administration Office (CAO)	1,131,281	1,132,333
Chief Information Office (CIO)	2,640	-
Health Services Administration (HSA)	1,831,529	3,049,127
Information Systems Department (ISD)	450,754	427,347
Los Angeles County Counsel	3,932	-
Los Angeles County Dept. of Public Health	-	9,333
Office of Public Safety	110,157	113,965
Total	<u>\$ 3,582,417</u>	<u>\$ 4,774,932</u>

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
OFFICE OF MANAGED CARE - COMMUNITY HEALTH PLAN

SCHEDULE OF BUDGET TO ACTUAL COMPARISON

FY 2007-08
(\$ in Thousands)
Attachment 7-1

	(a) Budget ¹	(b) Actual ²	(a) - (b) Variance	Explanation for Significant Variance
Average Membership				
Medi-Cal Managed Care Program (MMCP)	114,076	118,045	(3,969)	
Healthy Families Program (HFP)	17,797	19,501	(1,704)	
In-Home Supportive Services (IHSS)	28,621	26,984	1,637	
Total Average Membership	160,494	164,530	(4,036)	
Revenues				
Health Care Premiums	\$ 232,048	\$ 241,520	\$ (9,472)	
Other Revenue	-	3,921	(3,921)	LA Care started and disbursed Quality Improvement Fund (QIF) during fiscal year 2007-2008.
Interest	2,022	1,596	426	Medi-Cal's trust fund earned lower interest rate.
Coverage Initiative	4,570	-	4,570	Coverage Initiative (aka Healthy Way LA) is a program supported by Department of Health Services (DHS) and not Community Health Plan (CHP). CHP only provides call center support, nurse advice line, and mailing material for this program. This revenue was offset by corresponding expenses. The net effect on CHP is zero. The budget was developed by Department of Health Services. As a result, there is no explanation can be provided by CHP.
Total Revenue	\$ 238,640	\$ 247,037	\$ (8,397)	
Expenses				
General & Administrative Expenses				
Salaries & Employee Benefits (S&EB)	\$ 21,577	\$ 15,791 ³	\$ 5,786	CHP did not hire additional staffs, but continued to use temporary service workers within the claims processing, member services, and medical administration areas.
Services & Supplies (S&S)	21,219	14,729 ³	6,490	The variance is due primarily to the following reasons: 1) The budget for S&S included \$3.4 million for McKesson services. However, actual cost for McKesson was reclassified to Health Care expenses and 2) Only small portion of \$3.2 million budgeted for Coverage Initiative's Care Management that was used.
Other Charges	4	37	(33)	
Fixed Assets	-	(1)	1	
Total General & Administrative Expenses	\$ 42,800	\$ 30,536	\$ 12,264	
Health Care Expenses:				
Drugs & Medicine	\$ 18,158	\$ 14,320	\$ 3,838	Drugs & Medicine's budget was developed centrally by Department of Health Services. As a result, there is no explanation can be provided by CHP.
DHS Facilities' Capitation Distribution	160,558	160,222	336	
Other Medical Services Expenses	77,035	74,425 ³	2,610	
Total Health Care Expenses	\$ 195,751	\$ 188,967	\$ 6,784	
Total Expenses	\$ 238,551	\$ 219,523	\$ 19,028	
Gross Actual/Projected Income/(Loss)	\$ 89	\$ 27,514	\$ (27,425)	
DPSS PASC Administration Cost	\$ -	\$ -	\$ -	
Net Actual/Projected Income/(Loss)	\$ 89	\$ 27,514	\$ (27,425)	
CHP Equity Distribution Commitment	\$ 14,216	\$ 31,388	\$ (17,172)	

Notes:

- 1 - Based on Board adopted Final Budget
- 2 - Based on audited financial statement.
- 3 - Portions of S&EB and S&S reclassified to Health Care expenses because they were directly related to medical services.
- 4 - Significant variance is variance between actual and budget for more than 10% and \$100,000.

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
OFFICE OF MANAGED CARE - COMMUNITY HEALTH PLAN

SCHEDULE OF BUDGET TO ACTUAL COMPARISON

FY 2008-09
(\$ in Thousands)
Attachment 7-2

	(a) Budget ¹	(b) Actual ²	(a) - (b) Variance	Explanation for Significant Variance
Average Membership				
Medi-Cal Managed Care Program (MMCP)	122,159	125,068	(2,909)	
Healthy Families Program (HFP)	20,913	18,103	2,809	CHP expected increase in membership by 8.8% by bring in-house Health Net's and LA Care's members. However, in actual, there was decrease in membership enrollments.
In-Home Supportive Services (IHSS)	32,817	30,271	2,546	
Total Average Membership	175,889	173,442	2,447	
Revenue				
Health Care Premiums	\$ 261,666	\$ 262,930	\$ (1,264)	
Other Revenue	-	1,407	(1,407)	Quality Improvement Fund (QIF) received from LA Care based on member enrollments wasn't know at the time of budget development.
Interest	2,022	626	1,396	Medi-Cal's trust fund earned lower interest rate.
Coverage Initiative	4,576	-	4,576	Coverage Initiative (aka Healthy Way LA) is a program supported by Department of Health Services (DHS) and not Community Health Plan (CHP). CHP only provides call center support, nurse advice line, and mailing material for this program. This revenue was offset by corresponding expenses. The net effect on CHP is zero. The budget was developed by Department of Health Services. As a result, there is no explanation can be provided by CHP.
Total Revenue	\$ 268,264	\$ 264,963	\$ 3,301	
Expenses				
General & Administrative Expenses				
Salaries & Employee Benefits (S&EB)	\$ 20,966	\$ 13,399 ³	\$ 7,567	CHP did not hire additional staffs, but continued to use temporary service workers within the claims processing, member services, and medical administration areas.
Services & Supplies (S&S)	25,254	14,360 ³	10,894	The variance is due primarily to the following reasons: 1) The budget for S&S included \$3.4 million for McKesson services. However, actual cost for McKesson was reclassified to Health Care expenses and 2) \$3.2 million budgeted for Coverage Initiative's Care Management that was not used.
Other Charges	4	-	4	
Fixed Assets	100	-	100	Purchase of fixed assets was not approved by Chief of Financial Officer of Department of Health Services.
Total General & Administrative Expenses	\$ 46,324	\$ 27,759	\$ 18,565	
Health Care Expenses:				
Drugs & Medicine	\$ 19,254	\$ 18,334	\$ 920	
DHS Facilities' Capitation Distribution	112,079	107,043	5,036	
Other Medical Services Expenses	88,944	88,207 ³	737	
Total Health Care Expenses	\$ 220,277	\$ 213,384	\$ 6,893	
Total Expenses	\$ 266,601	\$ 241,143	\$ 25,258	
Gross Actual/Projected Income/(Loss)	\$ 1,663	\$ 23,620	\$ (21,957)	
DPSS PASC Administration Cost	\$ 89	-	\$ 89	
Net Actual/Projected Income/(Loss)	\$ 1,574	\$ 23,620	\$ (22,046)	
CHP Equity Distribution Commitment	\$ 12,642	\$ 28,826	\$ (16,184)	

Notes:

- 1 - Based on Board adopted Final Budget.
- 2 - Based on audited financial statement.
- 3 - Portions of S&EB and S&S reclassified to Health Care expenses because they were directly related to medical services.
- 4 - Significant variance is variance between actual and budget for more than 10% and \$100,000.

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
OFFICE OF MANAGED CARE - COMMUNITY HEALTH PLAN

SCHEDULE OF BUDGET TO ACTUAL COMPARISON
FY 2009-10
(\$ in Thousands)
Attachment 7-3

	(a) Budget ¹	(b) Actual ²	(a) - (b) Variance	Explanation for Significant Variance
Average Membership				
Medi-Cal Managed Care Program (MMCP)	131,759	136,233	(4,474)	
Healthy Families Program (HFP)	18,122	15,401	2,721	
In-Home Supportive Services (IHSS)	35,316	34,902	415	
Total Average Membership	185,197	186,536	(1,339)	
Revenue				
Health Care Premiums	\$ 286,797	\$ 284,266	\$ 2,531	
Other Revenue	363	1,560	(1,197)	Quality Improvement Fund (QIF) received from LA Care based on member enrollments wasn't know at the time of budget development.
Interest	800	243	557	
Coverage Initiative	2,404	-	2,404	Coverage Initiative (aka Healthy Way LA) is a program supported by Department of Health Services (DHS) and not Community Health Plan (CHP). CHP only provides call center support, nurse advice line, and mailing material for this program. This revenue was offset by corresponding expenses. The net effect on CHP is zero. The budget was developed by Department of Health Services. As a result, there is no explanation can be provided by CHP.
Total Revenue	\$ 290,364	\$ 286,069	\$ 4,295	
Expenses				
General & Administrative Expenses				
Salaries & Employee Benefits (S&EB)	\$ 20,202	\$ 11,939 ³	\$ 8,263	CHP didn't hire additional staff due to hiring freeze at the County and lack of workspace.
Services & Supplies (S&S)	30,151	12,825 ³	17,326	The variance is due primarily to the following reasons: 1) The budget for S&S included \$3.4 million for McKesson services. However, actual cost for McKesson was reclassified to Health Care expenses; 2) \$3.2 million budgeted for Coverage Initiative's Care Management that was not used; and 3) Delay in project implementation for new patient management system that was budgeted for \$4.3 million
Other Charges	4	-	4	
Fixed Assets	100	48	52	
Total General & Administrative Expenses	\$ 50,457	\$ 24,812	\$ 25,645	
Health Care Expenses:				
Drugs & Medicine	\$ 18,434	\$ 20,478	\$ (2,044)	
DHS Facilities' Capitation Distribution	121,053	120,443	610	
Other Medical Services Expenses	102,140	105,613 ³	(3,473)	
Total Health Care Expenses	\$ 241,627	\$ 246,534	\$ (4,907)	
Total Expenses	\$ 292,084	\$ 271,346	\$ 20,738	
Gross Actual/Projected Income/(Loss)	\$ (1,720)	\$ 14,723	\$ (16,443)	
DPSS PASC Administration Cost	\$ 69	-	\$ 69	
Net Actual/Projected Income/(Loss)	\$ (1,789)	\$ 14,723	\$ (16,512)	
CHP Equity Distribution Commitment	\$ 17,442	\$ 14,641	\$ 2,801	

Notes:

- 1 - Based on Board adopted Final Budget.
- 2 - Based on unaudited financial statement
- 3 - Portions of S&EB and S&S reclassified to Health Care expenses because they were directly related to medical services.
- 4 - Significant variance is variance between actual and budget for more than 10% and \$100,000.

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
OFFICE OF MANAGED CARE - COMMUNITY HEALTH PLAN
SCHEDULE OF FY 2010-11 BUDGET
(\$ in Thousands)
Attachment 3

	Budget ¹
Average Membership	
Medi-Cal Managed Care Program (MMCP) ²	148,661
Healthy Families Program (HFP) ³	15,769
In-Home Supportive Services (IHSS) ⁴	37,380
Total Average Membership	201,810
Revenue	
Health Care Premiums ⁵	\$ 302,639
Other Revenue ⁶	1,677
Interest	253
Coverage Initiative	2,288
Total Revenue	\$ 306,857
Expenses	
General & Administrative Expenses	
Salaries & Employee Benefits (S&EB)	\$ 19,418
Services & Supplies (S&S)	28,049
Other Charges	3
Fixed Assets	159
Total General & Administrative Expenses	\$ 47,629
Health Care Expenses:	
Drugs & Medicine	\$ 22,629
DHS Facilities' Capitation Distribution ⁷	130,740
Other Medical Services Expenses ¹	108,076
Total Health Care Expenses	\$ 261,445
Total Expenses	\$ 309,076
Gross Actual/Projected Income/(Loss)	\$ (2,219)
DPSS PASC Administration Cost	\$ 69
Net Actual/Projected Income/(Loss)	\$ (2,288)
CHP Equity Distribution Commitment	\$ 15,079

Note and Significant Assumptions Summary:

- Based on Supplemental Budget Request submission. Final Budget to be approved by the Board on September 28, 2010.
- Medi-Cal's membership is increased by approximately 8,000 for the fiscal year or 152,360 by June 2011.
- Healthy Families' membership is increased by approximately 2,000 for the fiscal year or 16,706 by June 2011.
- IHSS' membership is increased by approximately 3,500 for the fiscal year or 39,008 by June 2011.
- Health Care Premiums are adjusted according to estimated membership and the following:

Medi-Cal	HFP	IHSS
Capitation premium rate same as FY 09-10 (inclusive of potential Maternity Kicker recoverable) with additional rate deduction (at 60% for Medicaid Rx effective October 2010 (thru September 2011))	Capitation premium rate same as FY 09-10 with additional rate increase from MRMIB effective October 2010	Capitation premium rate same as FY 09-10.
Avg PMPM: [redacted] (Jul - Sept: Medicaid Rx reduction at 20%)	Avg PMPM: [redacted] (Jul - Sept)	Avg PMPM: [redacted]
[redacted] (Oct - Jun: Medicaid Rx reduction at 60%)	[redacted] (Effective Oct)	
[redacted] PMPM for the QIF		

7. Capitation distribution is adjusted according to estimated membership and the following:

Medi-Cal	HFP	IHSS
Capitation distribution rates for contract providers based on FY 2009-10. Capitation distribution rates for County providers reduced to reflect Medicaid Rx reduction (effective July 1, 2010).	Capitation distribution rates for County and contract providers same as FY 09-10. Capitation distribution to sub-contractors (per agreement) to increase effective October 2010 as a result of CHP's premium rate increase from MRMIB	Capitation distribution rates for County and contract providers based on FY 2009-10.
Avg PMPM: [redacted] (County)	Avg PMPM: [redacted] (County)	Avg PMPM: [redacted] (County)
[redacted] (Contract - Shared Risk)	[redacted] (Contract - Full Risk)	[redacted] (Contract)
[redacted] (Contract - Full Risk)	Subcontractor - Health Net [redacted] (Jul - Sep) [redacted] (Effective Oct)	[redacted] (Pacific Care)
	Subcontractor - LA Care [redacted] (Jul - Sep) [redacted] (Effective Oct)	

Attachment 9-1

		FY2008-2009	FY2007-2008
Audited FS	Capitation Distribution	\$181,867,270	\$166,610,178
By LOB (Amount)	Medi-Cal		
	County		
	Non County		
	Total Medi-Cal	98,135,821.50	88,377,084.32
	Healthy Family		
	County		
	Non County		
	Total Healthy Family	12,671,285.70	14,075,119.23
	IHSS		
	County		
	Non County		
	Total IHSS	71,060,162.91	64,157,974.32
	Total Capitation Distribution	181,867,270.11	166,610,177.87
By LOB (Membership)	Medi-Cal		
	County	536,807.00	548,843.00
	Non County	964,004.00	867,695.00
	Total Medi-Cal	1,500,811.00	1,416,538.00
	Healthy Family		
	County	30,715.00	30,935.00
	Non County	186,525.00	203,075.00
	Total Healthy Family	217,240.00	234,010.00
	IHSS		
	County	341,504.00	309,996.00
	Non County	21,753.00	13,814.00
	Total IHSS	363,257.00	323,810.00
PMPM	Medi-Cal		
	County		
	Non County		
	Healthy Family		
	County		
	Non County		
	IHSS		
	County		
	Non County		



Health Services
LOS ANGELES COUNTY

Los Angeles County
Board of Supervisors

Gloria Molina
First District

Mark Ridley-Thomas
Second District

Zev Yaroslavsky
Third District

Don Knabe
Fourth District

Michael D. Antonovich
Fifth District

Mitchell H. Katz, M.D.
Director

John F. Schunhoff, Ph.D.
Chief Deputy Director

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To ensure access to high-quality,
patient-centered, cost-effective
health care to Los Angeles County
residents through direct services at
DHS facilities and through
collaboration with community and
university partners.



www.dhs.lacounty.gov

February 9, 2011

TO: Wendy L. Watanabe
Auditor-Controller

FROM: John F. Schunhoff, Ph.D.
Chief Deputy Director

SUBJECT: **DHS COMMENTS REGARDING MGO AUDIT**

This is to provide a comment concerning the *Independent Accountant's Report on Applying Agreed-Upon Procedures* prepared by Macias Gini and O'Connell (MGO) concerning the Community Health Plan (CHP), dated October 29, 2011. A key finding of MGO concerning claims payable was that its "incurred but not received" claims liability was overstated by \$11.4 million as of June 30, 2010. This adjustment increased the net profit for June 30, 2010 from \$14.8 million to \$26.2 million.

The Department of Health Services (DHS) believes that this adjustment results in a significant overstatement of the net profit of CHP for the most recent year.

The overstatement results from MGO not taking into account that the CHP's IBNR claims reserves consist of a combination of: a) claims that are the responsibility of CHP, and b) claims that are the responsibility of DHS providers and private contracted providers. In calculating potential net income, CHP routinely includes receivable offsets to its IBNR liability to account for DHS providers' and private contractors' claims that are not the responsibility of CHP.

Using MGO's proposed lag method, but then also accounting for the factors mentioned above would result in calculating CHP's Fiscal Year 2009-10 net income to be \$18.2 million rather than the \$26.2 million indicated in the MGO report.

If you have any questions or need further information, please let me know.

JFS:jp

c: Chief Executive Office